

**A Work Project, presented as part of the requirements for the award of a Master  
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**INTERNATIONALIZATION PROCESS OF SKYPRO SHOES IN THE  
MIDDLE EAST**

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### Executive Summary

This Work Project is integrated on SME Competitiveness: internationalization strategy field lab and its aim is to study a Portuguese SME. Abotoa is a small and medium enterprise that sells corporative footwear to a specific niche market – airline industry.

The main goal of internationalization of this company is to increase both sales and profitability, which is Skypro's major short/medium-term goal. Since the Portuguese market has already saturated, Skypro sells to almost all Portuguese airline companies and Skypro has already tried to reach new markets by internationalization.

The Middle East appears to Skypro as one of the best regions to expand its sales. It is a region where the majority of the airline companies provide footwear to its employees and where some big companies employ, at least, the same number of the current biggest client of Skypro, TAP. These companies have a great commitment to quality service and the image wear is very important. They are also concerned about providing good footwear to its employees. The airline industry has been having high growth rates. Therefore, we can conclude that it is a very good region to invest/penetrate.

### Abotoa's Description

Abotoa is a Portuguese company founded in 2004. Abotoa is a family business, with four partners. This is a family firm where the CEO has 56,60% and two partners with 20,49% each and finally, one with 2,40%. The company has 16 employees and 5 of them belong to Skypro. (**Exhibit 1**)

Abotoa is acting in two different business areas with two different brands (Muffins and Skypro). However, I am only going to focus on Skypro since it is the brand with more need to expand to different regions throughout the world.

In 2004, Abotoa started by being a Lanidor franchisee and in 2005 they also started being an Aerosoles franchisee (with 2 stores).

Lanidor is the largest Portuguese brand of women ready-to-wear clothing. And Aerosoles is a leading footwear brand. Aerosoles had always been associated to high quality, comfortable and fashionable shoes.

In 2006/2007, Abotoa in partnership with Aerosoles created a new line of products – Aerosoles Pro. These corporative shoes were made and personalized to hotels, hospitals, gymnasiums and airline companies. Their principal clients' portfolio were Espirito Santo Saúde, Hospital da Cruz Vermelha, Hospital Lusiadas, TAP, Orbes, Portway, Ground fource and Aerosoles Pro's qualified partners (companies that provide uniforms and shoes).

In 2009, the Investvar group (Portuguese group) started to have management problems and went bankrupt. Aerosoles belonged to the Investvar group. Thus, Aerosoles in Portugal also went bankrupt. Abotoa had to face a big problem with the loss of its distribution channel.

At that time, Abotoa finished its franchising with Lanidor due to a decision of considering that the shoes industry was the core business and decided to end its partnerships with Lanidor.

These two brands have two different product lines and reach two specific niche/segments market.

Muffins is focused on traditional footwear associated to comfort, design and high quality shoes. Muffins is a footwear retail brand to medium and medium high target, with an average age of 45 years, intending to offer the "best of" footwear comfort. There are 3 Muffins' stores and one outlet store. In these stores, they do not sell only

Muffins' shoes but also the leader comfort brands such as Geox, Ecco, Stonefly, Rockport, and Ara Mephisto and, by doing this, they project Muffins brand together with these highly notorious brands.

Skypro is focused on specific market segmentation (corporate footwear). These shoes are classic and have a set of characteristics incorporated to the airline industry professionals (anti-skid, anti-static, ambicork - temperature control and alarm free on metal detectors at airports that is the differentiation factor from other common shoes).

Skypro has already 80% of the Portuguese market, thus with a small chance to grow domestically. It is crucial for Skypro to expand to international markets.

To reinforce the awareness of Skypro brand, the company has been operating in 2 different footwear international professional fairs: ITCA and MICAM. In these events Skypro increased its recognition, its prestige and impressed its future and potential clients by the quality and design of its products.

### Perspective on Business Mission and Strategic Objectives

Abotoa's **mission** is to create comfortable corporate and general footwear, with an innovative design.

Abotoa's **vision** is to be a reference supplier of footwear for airlines in Europe in 3 years and to be present in all continents in the next 5 years.

**For 2014, its strategic objectives are:**

- Skypro expects that 70% of its turnover (900.000€) will come from external markets;
- Increasing its recognition abroad with the objective to supply ten new airlines and to attain a number of 50.000 pairs of shoes ;

- Will to innovate and to find new ways to differentiate and improve the quality of the product. Thus, in 2012, Skypro wants to launch new ecologically sustainable leather shoes.

### Methodology

This work project is divided into two parts. The first one is focused on the company's analysis and the environment where it is inserted. And the second part is related to its international plan to the region chosen.

To get information to do the first part, I attended several meeting not only with the company's CEO but also with some of its clients and some potential Portuguese clients (Luzair).

Additionally, I made some interviews to the shoes' users. I collected 78 interviews from flight attendants and from pilots. Sixty five interviews were made directly at Lisbon's airport and the others were made online. These interviews were mainly made to test how users value the characteristics as well as to know if they are satisfied with the footwear. **(Exhibit 53-55)**

Furthermore, to study the Portuguese footwear industry I got in touch with APICCAPS, INE, AICEP and other entities.

As for the international part, I tried to contact several potential companies from the Middle East. However, I only got feedback from two, Gulf Air and Qatar Airways **(Exhibits 58-59)**. Besides that, I tried to contact one of the potential agents there (The Uniforms Company LLC) but I did not receive any answer from them.

In both parts, the Internet was really useful to search for information related to them.

## **Brief Introduction about the tendency of the airline industry in Portugal(Exhibit 2)**

### **Trends of the Portuguese Footwear Industry (Exhibit 3)**

### **International overview on footwear Industry (Exhibit 4)**

### **Industry Mapping (Exhibit 24)**

Industry mapping is useful to understand where Skypro is positioned in the footwear industry as well as where it is positioned comparing its partners. The main players are:

- **Clients**

Skypro's clients are: Airline companies and Ground handling companies. Its current clients can be seen in **Exhibit 22 -23**.

- **Suppliers**

Skypro's suppliers are footwear factories as well as factories that produce accessories like leather wallets, trolleys and leather gloves.

They are: Mata, Centenários, Valuni, Cort Gin, HMC, Identidade Clus and Mestra.

- **E-commerce Store**

This is an on-line platform with the aim of attaining new clients such as flight attendants and steward hostesses whose employers do not provide footwear or whose companies only give a specific amount of money to be spent on footwear.

This on-line store is being created and it is in a test process and will be launched at the Aircraft Interiors on March 2012. It is also necessary to make some investments (having stocks) when launched.

- APICCAPS – Associação Portuguesa dos Industriais de Calçado, Componentes, Artigos de Pele e seus Sucedâneos

Skypro is an APICCAPS's associated and benefits from a whole structure that works like a facilitator's agent in footwear's fairs (MICAM and ITCA) held by EU funds and where the execution's services, the logistics of the fairs will be done. It includes not only the stand's transportation, but also the assembly/disassembly, transport sample, travel and lodging.

- CTCP – Centro Tecnológico de Calçado de Portugal

The partnership between CTCP and Skypro is a binominal partnership. CTCP makes tests on the products developed by Skypro. They make mechanical and chemical tests to guarantee high quality standards and fill in the international norms regarding comfort, safety and health.

Moreover, Skypro makes its investment plan in CTCP. For the next 3 years they are going to spend 70.000€ to make improvements on the design, modulation, and on the product's conception.

Skypro is also going to spend 4.000€ on intellectual property to register its patent. In this situation, the role of CTCP is to support the company with European funds and by externalizing the register service of the patent.

Finally, CTCP is Abotoa's partner in the management of the QREN process and provides conformity's certificates with international norms to the footwear sector.

**(Exhibit 25)**



### ▪ Distributors

First of all, there are several distribution companies specified to transport urgent samples such as FEDEX, DHL, TNT, etc. In addition, the firm works with AZKAR to transport the Skypro's footwear to European airline companies.

Skypro tries to delegate the logistics and distribution to its clients. They prefer the clients to collect the products. The company typically works with the ex-work approach. They only change it when the client wants.

The factories have always competitive advantage on transportation costs since they use this service on a vaster way.

As for the e-commerce store, Skypro is initiating its process and the storage. The maintenance of the stocks should be done by themselves and the delivery will be made by a distributor, an urgent mail distributor.

### ▪ Competitors

**Direct Competitors:** Companies which sell technical shoes for aviation professionals. Abroad, they are: Crews Shoes, Shoes 4 Crews, Shoes for Crews, Miller Rayner, Shoe Vouchers, Standing comfort, Van Dal Shoes. And in Portugal, there is a company that sells corporate shoes, Lavoro, and one of areas is the aviation. However, its shoes have different characteristics comparing to Skypro's shoes – they follow different norms and they are more directed to safety shoes rather than to comfortable shoes.

**Indirect Competitors:** Companies which sell classic and comfortable footwear but that are not designed especially for aviation's personnel. They are classic and comfort footwear companies such as Easy Spirit, Clarks, Kelly and Katty, Moda Spana Nella, Soft Shoes, Gentle Souls, Shoes n feet, Mary Jane's, Hush Puppies, Aerosoles and

Ashley. Besides these companies, the American e-commerce Website (Zappos) has a section of airport friendly shoes, but these are ordinary footwear like the ones as uniform companies sell to the airline industry such as Forma Única, Veste Imagem, Ittum, Imagem e Companhias, ICW UK and Weill corporate wear.

▪ **Collaborators/Partners**

Skypro has a partnership in Russia with LSG Sky Chefs, a global company of in-flight services. And, in Switzerland, with Imagewear.

**Value Chain (Exhibit 26)**

Skypro is focused on its core competences and outsources its production, its marketing and accounting.

As its support activities we can consider: firm infrastructure represented by the storage space. R&D is considered as product design, the technology used to develop new products and its technology's partnership with CTCP.

In support activities Skypro includes the human resources management, the quality management and the procurement (activities related to the purchase of raw materials, the supplier's choice and support to the service level - maintenance and repair).

Besides that, the activities that belong to primary activities are: sales and marketing, inbound logistics, outbound logistics and after sales' service.

The firm's process starts with the sales and marketing. The process used by the company is make-to-order, thus the CRM is done before the sales actually occurs. The production only starts when the orders are made to the factories. These two activities could not be separated because the selling process depends on marketing and both complement each other.

The activity that comes after is inbound logistics when the products are received and stored. After that, there is the outbound logistics when the products are stored and distributed to the client. Finally, there is an after-sales service that provides products guarantee, good return and monitoring the clients satisfaction.

After analyzing Skyros's value chain, I can conclude that Skypro should establish a partnership with the factories with which they have the best commercial partnership (CortGin and Mata). By doing this, Skypro could improve its quality control over production (quality management), the costs associated to the procurement activities and could also minimize the production costs, improve the R&D, and consequently reduce the risks.

### VRIO

The core competence of Skypro is the knowledge that it has of the market and the development of a corporative and differentiated product made especially to the airline industry. Skypro has a data base of international airline companies since they have been working on this for three years.

Skypro's products are considered valuable since these products are added-value to the consumer. Comfort and design are characteristics associated to Skypro shoes. It makes Skypro shoes a valuable product.

Besides valuable, these products are considered as rare since they combine a set of characteristics that individually are not rare but gathered they make the product differentiated.

Additionally, these products are well organized since the firm has advantage on the market (profit) to possess its products.

Nevertheless, these products are easy to imitate because there is not any kind of patents and the differentiation factors are not a specific characteristic but the gathering of these characteristics in only one product to a specific niche market (airline industry).

Concluding, the product can be imitated and, although difficult, the market's knowledge is accessible to any producer interested in this niche market and the competitive advantage is temporary.

### **Porters' five forces**

I will take the Porters' five forces, one of the essential approaches, to analyze the company and the industry where it is inserted. These 5 forces will determine the profitability and the attractiveness of the footwear industry. All these forces will influence the charged price, the costs as well as the investments needed for the company to be in the market.

Taking into consideration the Porters' five forces of Skypro:

- **Bargaining Power of Suppliers**

Skypro's suppliers are the factories where they outsource its production.

The factories that Skypro works with are divided for men and for women. The factories for men are Mata, Centenários and Valuni. And the factories for women are Cort Gin and HMC. This market has a lot of companies that produce footwear, so it is a low concentrated market.

Skypro decided to choose these factories (Mata, Centenários, Valuni, Cort Gin, HMC, Identidade Clássica and Mestra) for special reasons: price, possibility of Skypro's techniques to mold its shoes within the factories, payment conditions, innovative and risk sharing factories.

This partnership is mainly informal since they do not have contracts with Skypro. They have some bargaining power over Skypro. These factories sometimes are dependent on the producers of the raw materials and if some problem occurs they have to delay the delivery of the final product to Skypro.

The raw materials are chosen by Skypro, but if the factory that produces the shoes has a supplier that has a better quality/price ratio due to economies of scale, Skypro can approve it after analyzing it.

During the management control process in the factories there is a technician that controls the quality of the product in all phases in every production line. After the production process, they also test the quality of the final product. Skypro takes more or less between 3% and 5% samples of the total production. Then, it gives a grade from a scale from 1 to 5. If the grade is below 3, the production goes again to the factory.

The orders made by Skypro to these factories are non frequent and irrelevant comparing to the overall production of factories. So, Skypro is a small client of these factories.

The switching cost to change to another supplier is low since there are not such high investments made by Skypro. They used these seven factories because of the characteristics of the orders. Since Skypro cannot reach economies of scales, it uses these seven factories in order to minimize its risk.

Another point that is essential to take into consideration is the possibility of forward integration by the supplier as Skypro supplies to a niche market that could become attractive for the factories to play in. However, the risk of this happening is medium since the factories are more focused on the production of large markets than niche markets.

The capacity to differentiate the price of the product by the suppliers is medium as Skypro has very little bargaining power, although there is transparency in this industry since Skypro knows the price of some raw materials and the costs of the labor and it could be seen as a barrier for suppliers to discriminate the price.

In conclusion, we can assume that the bargaining power of the suppliers is high.

▪ **Bargaining Power of Buyers**

Skypro's buyers are airline and ground handling companies that provide footwear to flight attendants and pilots. TAP represents 60% of its sales.

First of all, Skypro focuses on a niche market (airline companies) and some of its clients have a bigger importance to its sales. Thus, the concentration of buyers is high since there are few buyers.

The switching cost for a buyer to change to other supplier is considered as medium because they have not investment to make this arrangement. However, Skypro customizes its products to a specific client, becoming the major client supplier. Moreover, the airline company uses the same uniform for 15-20 years.

In this industry, Skypro has a higher power to discriminate its prices as the market is not transparent and the buyers cannot see what is the price charged by them to other client.

Concluding, clients have a medium/high level of bargaining power.

▪ **The threat of new entrants**

The most likely entrants to its market segmentation are the companies of traditional footwear that provide comfortable and technical shoes and the companies that provide uniforms to the airline industry.

First of all, the capital requirement to enter this industry is low. It means that if a potential competitor wants, it can outsource for the production without spending so

much capital (only on shoe last). Besides that, the product differentiation is high since Skypro gathers a bunch of specific characteristics such as anti-skid, anti-static, ambicork - temperature control system and alarm free on metal detectors at airports in only one product.

Skypro has a previous knowledge of the market not only from the footwear industry but also from the airline industry which came from their past partnership with Aerosoles. Thus, their network externality could be considered as medium.

Skypro has been creating its partnership with their clients and it implies some increase on customer loyalty. For example, the company started its partnership with TAP, its major client, in 2004 and there is an expectation to continue its relationship for many years since TAP is satisfied with Skypro's products. Therefore, it is seen as a barrier to new entrants. Likewise, Skypro is the supplier of almost every Portuguese airline company except for SATA, HiFly and Luzair, all three representing a small share of the market.

Since there are almost no competitors, in Portugal, focused on this niche market, it makes this market really attractive to new entrants.

- Threat of Substitutes

The possible substitutes are classic shoes. In this segment, they can be classic comfortable or not so comfortable shoes that were not specifically designed for the airline industry.

The switching cost of a substitute is medium. However, there is always the trade-off between the price and the added-value to the client. Thus, it will depend on the willingness to pay for a product that is focused specifically on the professionals of the airline industry.

▪ **Internal Rivalry**

In Portugal, apart from Lavoro, there are no other direct competitors since Skypro is focused on a specific niche market (airline industry).

Furthermore, there are not huge specific investments in this industry and so, exit barriers in this market are not significant.

There are a lot of traditional comfort and classic footwear companies but no one focuses on this niche market. It makes this niche market very attractive to the new entrants.

The new entrants can only differentiate their prices if they launch an innovative product and if they have lower production costs and smaller profit margin.

Skypro has a high margin over its products that represent its added-value to its clients.

However, Portuguese market continues to be seen as a very attractive industry to the firm. But since the market is almost saturated they have to internationalize to expand its sales.

**SWOT Analysis**

The SWOT analysis is going to be essential to understand if the strategic decisions of Skypro are in good direction. In this analysis it is very important to be aware of the company's strengths in order to take advantage of its opportunities, to surpass the threats and to turn weaknesses into opportunities.

The SWOT analysis of Skypro is going to be presented:

<b>Strengths</b>	<b>Opportunities</b>
<ul style="list-style-type: none"> <li>Unique and differentiated product</li> <li>Leader in Portugal</li> <li>High markup</li> <li>Low fixed costs (no stocks, no investment in factories)</li> </ul>	<ul style="list-style-type: none"> <li>E-commerce store</li> <li>Seasonality of industry</li> <li>New niche markets</li> <li>New communication approaches to reach target markets (Facebook,</li> </ul>



<ul style="list-style-type: none"> <li>• Customization</li> <li>• Knowledge of the market</li> <li>• After Sales service- Contact with the client</li> <li>• Partnerships with CTCP</li> </ul>	<p>Twitter)</p> <ul style="list-style-type: none"> <li>• Acquisitive power of airline companies</li> <li>• Duration of uniforms</li> <li>• Advertising in restricted staff areas</li> </ul>
Weaknesses	Threats
<ul style="list-style-type: none"> <li>• Low control of delivering the products on time</li> <li>• Dependency of factories</li> <li>• Low capacity for financing</li> <li>• No contracts with suppliers</li> <li>• Dimension – few resources</li> <li>• No product patent</li> <li>• Inefficient service to collect feedback from the users</li> </ul>	<ul style="list-style-type: none"> <li>• Being easily copied by vertical integration</li> <li>• New entrants in this niche market</li> <li>• Global crisis</li> <li>• Exchange risk</li> <li>• Barriers to entrance of products in the boundaries of the countries (outside Europe)</li> </ul>

### TOWS

#### SO strategies — use a Skyros's internal strengths to take advantage of external opportunities

- In my opinion, the knowledge of the market as well as the e-commerce store could be used to reach new types of clients, not only in Portugal but also abroad, such as individual clients who work in airline companies.
- Its partnership with CTCP could help Skypro improve the shoes and enter new niche markets. One of its main goals is to reach new niche markets such as cruise crew, lorry drivers and train crews, etc. Thus, CTCP would come up in a way to help Skypro to develop new products with a different design and with high quality.

#### ST strategies—use a Skypro's strengths to avoid or reduce the impact of external threats

- Skypro could use its differentiated products, the knowledge that they get from the market as well as its partnership with CTCP to improve the product offered as well as to decrease the threats of substitutes.

- Since Skypro has been seen as the reference in the Portuguese market as it supplies to all the airline companies except for SATA, Luzair and HiFly. As a result, it could be used to reduce the new entrants in this niche markets.
- Decrease a little the markup margin to remain competitive to adapt to the actual economic situation (crisis) and to avoid future entries.
- To reduce the tariffs' costs when the products reach other foreign countries, Skypro should make some partnerships with entities in those countries. These partnerships could consist of agreements with factories or even having a representative in those countries if the amount of sales justify.

**WO strategies—are aimed at improving internal weaknesses by taking advantage of external opportunities.**

- With the e-commerce store, Skypro would have to build stocks, so it could mean more orders to the factories. With that, Skypro could gain some power in its partnership with the factories.
- The new approaches of social networks such as Facebook and Twitter could be a way to collect feedback from the Skypro's clients. With these new tools, Skypro could send directly to the user some surveys in which they could express their opinion about the shoes.
- After making the surveys to flight attendants and pilots, I can conclude that the shoes are not as comfortable as stated. However, most of the interviewees said that they have been improving for the past few years. It means, that Skypro should continue to invest on the quality and on the design of its products to have its clients satisfied. Besides these surveys, I made interviews to TAP, White jets and to Luzair. TAP and White are both satisfied with the footwear provided by Skypro.

**WT strategies—are defensive tactics directed at reducing internal weaknesses and avoiding external threats.**

- Register patents and establish contracts with manufactures to:
  - Avoid being easily copied by vertical integration;
  - Improve the delivery on time from factories;
  - Reduce its dependency.

**Criteria for region selection – Middle East**

First of all, the Middle Eastern airline industry has been growing in the past few years (**Exhibit 36**), and most of the companies operating in this region are really concerned about providing a high quality service to its clients. Thus, to provide this high quality service they have to dress up its employees with higher quality footwear. So, Skypro appear to them as a really good footwear's supplier.

According to IATA (International Air Transport Association) the Middle East is one of the regions with a higher growth rate in worldwide air traffic<sup>1</sup>.

Moreover, according to the Chairman of MEBAA<sup>2</sup>, a trade association aviation of professionals in the Middle East region, there is a tendency for an increase of the growth rate of airline industry in this region. There are some forecasts:

	<b>Current Situation</b>	<b>Forecast</b>
<b>The number of business aircraft</b>	453	1330 by 2019
<b>The number of business aircraft movements</b>	110,000	160,000 by 2018
<b>Value of Business Aviation</b>	US\$ 493 million	more than one Billion US\$ by 2018

Source: MEBAA

<sup>1</sup> <http://www.arabiansupplychain.com/article-6827-middle-east-airlines-lead-global-growth-in-october/>

<sup>2</sup> <http://mebaa.com/MediaCentre/News/tabid/69/articleType/ArticleView/articleId/92/Mr-Al-Naqbis-paper-at-NBAA-38th-Annual-International-Operators-Conference.aspx>

This could be explained by the fact that tourism (business, cultural and leisure) has been growing a lot in this region. Dubai, Abu Dhabi, Muscat, Kuwait, Jordan are considered as top destinations in the world.

The most important airline companies operating in the Middle East are: Emirates Airlines, Etihad Airways, Qatar Airways and Gulf Air. These airline companies have been purchasing new aircrafts, which could indicate its expansion plan.

### **Middle Eastern Airline Companies:**

The countries that I am going to focus on are: Bahrain, Qatar, UAE, Saudi Arabia and Jordan. The choice of these companies was not because of any specific country but because of the airline companies that operate in these countries. This decision was made taking into consideration aspects such as the dimension and the fleets hold by them (**Exhibit 28 - 34**) as well as the number of employees (**Exhibit 35**) and the quality of the service provided by each airline company.

The companies which I am going to focus are: Gulf Air, Qatar Airways, Air Arabia, Emirates, Etihad Airways, Saudi Arabian Airlines and Royal Jordanian.

### **Previous experience of Skypro in the Middle East**

Skypro had already tried to enter the Middle Eastern market. They had some contacts with airline companies from Qatar, United Arab Emirates and Bahrain.

At the moment, Skypro has already supplied Amiri Flight, a company from Qatar, and it is competing in the tender bidding of Qatar Airways. Thus, Skypro has already some knowledge of Qatar and some of other countries in this particular region. Skypro has previous experience in some companies from the Middle East:

**Emirates:** Skypro lost the tender bidding to other company.

**Etihad Airways:** Skypro lost the tender bidding to Hush Puppies because the price presented by this company was lower than the price charged by Skypro. Yet, the company is still in touch with this airline company.

**Qatar Airways:** Skypro has been competing to win the tender bidding. However, seven of the forty two samples sent have defect - a heel problem. The comfort evaluation was considered very good and the company have a permanent contact with this airline company.

**Gulf Air:** They were invited to participate in its tender bidding, but Skypro did not accept the invitation because they have to pay a fee of 1.500€.

### Mode of Entry

In my opinion, after analysing the current situation of the company (it does not possess a lot of capital resources) and of the market, I concluded that the best situation for Skypro to penetrate into the Middle East region is through direct export. By taking this option, the firm could easily control the quality of its products and maintain a strong relation with its clients as they could receive a better feedback from them and adapt its products to their needs by customization, minimize the risk and investments and gain economies of scale (decrease the production cost per unit).

There are some obstacles with this mode of entry. The outcomes of this method will not be quickly seen; it will probably take from 1 to 2 years to have some effect. Besides that, associated to the exportation there will always be trade barriers and tariffs added to costs, higher transportation costs and some lack of access to local information.

Personally, I believe Skypro should outsource its production in domestic market for two reasons. The first one is because it is less risky. And the second reason is because the firm has to take control over the quality of its products. In my opinion, Skypro has to

make some improvements on its quality control and I think that it should work with only the two factories with which it has a better commercial partnership (CortGin and Mata). The contracts with them should be regenerated each year. These partnerships would have to have some specific quality control clauses. The quality control system should take into account three aspects. Those are the following: the procurement of raw material suppliers, the motorization of all production process and the after-sales service. It will lead to higher stability. Moreover, the suppliers would have to be certified with ISO 9000-2000.

Consequently, they could reduce some defected products and reach economies of scale. In my point of view, Skypro should try to contact directly with the airline companies. Considering its previous experience, the company already knows how the process works. And it knows where it has to make some changes: firstly, on the price and secondly, on the quality control.

However, Skypro does not have strength of its internal sales since they do not have a lot of resources on its international sales process. So, another option to penetrate inside the Middle East should be through an agent – commercial local's representative agent. The contracts made with them should not be exclusive contracts. Sometimes, people with the same culture and the same language know better the culture of these countries and sometimes these partners have already some partnerships with the potential customers. Thus, it could be better to establish and negotiate contracts with clients.

For Skypro, it could be one of the best solutions since the product is specialized / differentiated and their usage could be better explained to the customer by these agents and all the negotiation process could be easier and faster. In this case, there would not be any linguistic problem. Additionally, this process seems to be less risky for Skypro.

In this process, Skypro's objectives should be well designed. The agents would receive a percentage of their sales. For example, the firm should impose a ratio of agent's sales over the number of visits to the potential clients.

I would suggest making a contract with "The Uniforms Company LLC".

The company which I selected to this process is a company that has already provided uniforms to some airport companies such as Emirates, Gulf Jet, Empire Aviation Group, Elite Jets, Dubai International Airport and Dnata. (**Exhibit 48**)

### Implementation

After analysing all the facts, I think that, firstly, Skypro needs to improve the quality control (**Exhibit 37**), make partnerships with factories and take some time to establish a internationalization strategy. Only after that it should try to penetrate into the international market. Thus, there is the need to design an implementation plan. I am going to focus on the price strategy and on the four M's approach (Men, Money, Minute and Memo) to design it.

#### Strategy – Charged price for direct export without partner (**Exhibit 38 - 47**)

#### Men, Money, Minute and Memo

- **Men**

In my opinion, it is not necessary to hire a new employee to the internationalization process. There is already a person responsible for the contacts of Skypro with foreign companies.

As for me, the person responsible to contact with "The uniforms Company LLC" as well as with the airlines companies should be the company's CEO and the person already responsible for the contacts with the foreign / airline companies.

- **Money**

The only possible costs during this implementation process are the plane ticket's price to go to this region, and the transportation cost, the hotel expenses as well as the food expenses during that period.

Moreover, there are some costs associated to international fairs. But these costs only come once during every year. These fairs help Skypro promote and make some marketing of its products as well as increase the awareness of the brand.

Besides that, we also should take into consideration the money needed to participate in some business tender biddings of the clients such as Gulf Air.

- **Minute (Exhibit 57)**

	<b>Activities</b>	<b>Dependency</b>
1	Structure its internationalization strategy	2 months
2	Partnerships with CortGin and Mata factories	1 – 6 month
4	Contact AICEP	1 month
5	Acknowledging Middle East legislation (Bahrain, Qatar, UAE, Saudi Arabia and Jordan)	1 - 2 month
6	Re-contact/ contact with clients	1 - 6 months
7	Partner in Middle East	1 – 6 months
9	Participate in contests	Each Year – take 3 months
9	Participate in International Fairs (ITCA)	Each Year

Source: Primary's source



- **Memo**

Strategic idea	Objectives	Measurement	Target	Initiative
<b>Financial</b>	Increase sales' revenue	Sales revenue; Margins	Increase sales from 50% to 100% in 3 years	By Direct Export done by itself or by an agent
<b>Customer</b>	Being recognized in the Middle East by its quality and innovation (Differentiated Product)	Market research done by a employee or by a partner	Consolidate and increase the customer's loyalty and the perception of the brand Skypro by them	Direct contact or through a Partner
<b>Internal</b>	Partnerships with factories - Improve quality control	According performance with the company's objectives (defected products)	Decrease the number of defected products	Training – control over all production process as well as after production process
<b>Learning</b>	E- commerce and training of employees	Time to implement	Reach new targets – flight attendants and board commissioners whose airlines do not provide footwear	Develop online platform and give training to employees

Source: Primary's source

### Risk Analysis

**Business Model** – If Skypro opts for a direct contact with the client the same problem can occur again. It cannot gain the business tender bidding again.

**Financial** - There is not any big investments associated to Skypro in the Middle East since its internationalization process would be done by direct export, by the company itself, which is one of the less expensive methods to enter international markets. Or by an agent who only earns by commission on sales.

However, there are some costs associated to this process. There is the cost of participating in the business tender bidding of Gulf Air (1.500€), and the costs of participating in international fairs (45.000€). However, a percentage of the costs of these fairs are supported by APICAPS. Besides that, we need to consider the costs to send samples to the Middle Eastern companies as well as the costs of journeys made by the company's CEO to visit its potential clients, and finally, the accommodation costs in this period. **(Exhibit 25 and 61)**

**Operational** - If Skypro does not establish a partnership with the two factories with which it has the best commercial partnership (CortGin and Mata), it would be difficult for them to have the capacity to answer high demands of its products. The factories need guaranties of the orders made by Skypro. There is some limitation in asking for credits for production since Skypro has to increase its production due to its internationalization. Taking into consideration the company's CEO, the production cost for 1 million € of sales is approximately 200.000€. So, to make this kind of investment, the factories would need to have guaranties from Skypro. Therefore, the only way to give some guaranties is by the establishment of those partnerships. With this strategy, Skypro could create economies of scale, higher orders and frequent, less dependency on the factories and better capacity to negotiate the price per pair of shoes.

**Implementation** - There are some risks associated to all these processes, such as credit risk, exchange risk and the possibility of increasing the price of raw materials (leather price). When companies want to export their products to other countries, they have to take into consideration the risk of exchange rates. This occurs because there are always currency fluctuations.

Since the companies want to have their “usual” margins, without taking currency/exchange risks, they should make fixed-term contracts (forward contracts), future contracts or options in foreign currency. Nevertheless, it would not happen with all companies. For example, Gulf Air could establish its contracts either in Euros, Dollars or Bahraini Dinars.

### Conclusion

After analyzing the Portuguese market where Skypro operates, we can conclude that the market is already saturated. Thus, internationalization it is the only possibility to increase its revenue volume.

The internationalization process would lead Skypro to have a higher productivity because exporting implies an increase on the production scale. With this process, the firm could gain economies of scale that would lead to a reduction on the production costs per unit and would become more competitive in the international market. It also helps it develop its process of innovation by improving its quality control, more training to their employees and more frequent orders. With the increase of the number of partnerships, Skypro would increase its capacity to compete in the international market. Additionally, the internationalization of Skypro would represent a higher awareness of the brand/company in international markets.

All in all, by the end of the implementation analysis I can conclude that it would be a good decision for Skypro to go to the Middle East due to the considerable market attractiveness, but only after making some improvements to its structure, mainly to its partnerships with the factories as well as to its quality control.

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